

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

ENVIRON PRODUCTS, INC.,
Plaintiff,

v.

FURON COMPANY, INC.,
Defendant.

Civil Action
No. 96-2451

ENVIRON PRODUCTS, INC.,
Plaintiff,

v.

ADVANCED POLYMER TECHNOLOGY INC.
and LEO J. LeBLANC,
Defendants.

Civil Action
No. 95-7209

EBW, INC.,
Plaintiff,

v.

ENVIRON PRODUCTS, INC. and
MICHAEL C. WEBB,
Defendants.

Civil Action
No. 96-4994

Gawthrop, J.

April 30, 1998

M E M O R A N D U M

Before the court in this action relating to U.S. Patent No. 5,297,896 are Motions for a New Trial filed by Advanced Polymer Technology, Inc., EBW, Inc., and Furon Co. In the alternative, Advanced Polymer and EBW request that the court enter final

judgment on the issue of inventorship and certify this issue for immediate appeal. Upon the following reasoning, I shall deny defendants' motions for a new trial, and enter final judgment that Michael Webb was the original inventor of the subject matter of U.S. Patent No. 5,297,896.

I. Background

On March 25, 1992, Environ filed a patent application for an invention by Michael Webb, which issued as U.S. Patent No. 5,297,896 ('896) on March 29, 1994. On October 16, 1992, Furon filed a patent application for an invention by Steven Skaggs, now deceased, which issued as U.S. Patent No. 5,343,738 ('738) on September 6, 1994. On March 27, 1992, APT filed a U.S. Patent Application Serial No. 07/859,034 claiming Leo LeBlanc and Andrew Youngs as joint inventors, which is pending. Thus, both patents and the application were previously co-pending as applications before the United States Patent and Trademark Office ("PTO").

The three actions were consolidated for trial under Federal Rule of Civil Procedure 42(a) on a common question of fact, namely, who actually invented a new type of underground flexible coaxial containment pipe which is described in patents '738 and '896 and APT's pending patent application. All parties claim to be the first to invent the subject matter at issue.

The case went to trial on the issue of inventorship, and the jury returned a verdict in favor of Environ by finding Michael Webb, Environ's claimed inventor, to be the original inventor of the subject matter at issue. Advanced Polymer and EBW, (jointly

"APT/EBW"), and Furon have filed motions for a new trial pursuant to Federal Rule of Civil Procedure 59(a). They claim that the court reversibly erred, in three particulars: (1) the admission into evidence of a settlement agreement between APT/EBW and Furon, (2) the jury instruction on the level of corroborative evidence to prove conception, and (3) the jury instruction on burden of proof.

II. Standard of Review

Under F.R.C.P. 59(a), a new trial may be granted "in an action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States ..." Fed. R. Civ. P. 59(a). These reasons include prejudicial errors of law and verdicts against the weight of the evidence. See Maylie v. National R.R. Passenger Corp., 791 F. Supp. 477, 480 (E.D. Pa.), aff'd, 983 F.2d 1051 (3d Cir. 1992).

In general, a new trial may be granted due to an erroneous jury instruction if the "instruction was capable of confusing and thereby misleading the jury," Cooper Distributing Co. v. Amana Refrigeration, Inc., 63 F.3d 262, 276 (3d Cir. 1995)(quoting Link v. Mercedes-Benz of North America, Inc., 788 F.2d 918, 922 (3d Cir. 1986), or if the jury instruction contained an error that was "so prejudicial that denial of a new trial would be inconsistent with substantial justice." Finch v. Hercules Inc., 941 F. Supp. 1395, 1413-14 (D. Del. 1996); see also Bhaya v. Westinghouse Elec. Corp., 709 F. Supp. 600, 601 (E.D. Pa.1989)

(quoting Fed. R. Civ. P. 61). If the jury instruction regarding the burden of proof on the issue of inventorship is found to be in error, a new trial should be granted. Waldorf v. Shuta, 896 F.2d 723, 730 (3d Cir. 1990).

III. Discussion

A. Admission of the Cross-License Agreement

APT/EBW moved in limine to exclude a cross-license agreement between APT/EBW and Furon. Under the terms of the agreement, Furon agreed to license its patent and associated technology to APT/EBW, and likewise, APT/EBW agreed to license their pending patent application and associated technology to Furon. As admitted by the parties, the agreement was intended to remove the threat of possible litigation between APT/EBW and Furon.

Federal Rule of Evidence 408 excludes, with certain exceptions, evidence of settlement agreements. It states:

Evidence of (1) furnishing or offering or promising to furnish, or (2) accepting or offering or promising to accept, a valuable consideration in compromising or attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to prove liability for or invalidity of the claim or its amount. Evidence of conduct or statements made in compromise negotiations is likewise not admissible. The rule does not require the exclusion of any evidence otherwise discoverable merely because it is presented in the course of compromise negotiations. This rule also does not require exclusion when the evidence is offered for another purpose, such as proving bias or prejudice of a witness, negating a contention of undue delay, or proving an effort to obstruct a criminal investigation or prosecution.

(Emphasis supplied). Here, the court permitted the evidence to be heard, on the theory that it would tend to show the relationships between the parties, the signatories to the agreement. Whether they were yet at arm's length, or had progressed to being hand-in-hand, could have some bearing on the flavor of their testimony, and thus, was a factor which the jury had a right to consider. In denying the motion in limine and admitting the evidence, the court carefully instructed the jury as to the agreement's limited purpose. The jury was instructed as follows:

You should not consider this agreement as an admission of wrongdoing by either APT or Furon. Neither should you consider this evidence as having any effect on the validity of any of the claims in this litigation. You may, however, consider the agreement between APT and Furon in determining the bias or prejudice of any witness.

(Tr. at 121.)

APT/EBW assert that Environ used the cross-license agreement to show that the agreement was a "win-win" situation for the defendants, that it was a "sweetheart deal," and that the defendants were cooperating as a "tag team" against the plaintiff. Indeed, it was used for that purpose, and to show that the two defendants were litigation cohorts, each with the same axe to grind. That probative purpose is proper. The illicit purpose -- to somehow infer that because of the settlement agreement, civil liability should flow in the same direction -- was neither exploited nor argued. Indeed, the jury

was instructed as to precisely the opposite. Its admission was not error.

B. Corroboration Evidence Issue

The jury was instructed that:

To establish conception there must be reasonable corroboration in the form of writing or writings or the testimony of a person other than the inventor looking at the totality of the circumstances under the rule of reason.

Under the rule of reason, the record as a whole must establish the credibility of the inventor's explanation of how the invention was made, and therefore, corroborate the inventor's evidence.

(Tr. at 131.) To this end, Environ presented testimony of two witnesses, one a current and the other a previous Environ employee, in support of Mr. Webb's testimony as to his conception of the new type of underground flexible coaxial containment pipe and a sketch, which purportedly contemporaneously memorialized this conception. APT/EBW argue that since the two allegedly corroborating witnesses were affiliated with Mr. Webb's company, Environ, they were insufficiently independent to pass corroborative muster. APT/EBW further contend that the court's instruction on corroboration was too liberal, instructing the jury that corroboration may "consist of evidence of surrounding facts and circumstances independent of information received from the inventor," rather than solely of evidence of writing or writings or the testimony of a person other than the inventor.

Certainly, the witnesses' Environ connection goes to their interest in the outcome of the case, and to the testimony's weight. But the law nevertheless permits such testimony to be considered as "independent corroboration." "Independent corroboration may consist of testimony of a witness other than the inventor, to the actual reduction to practice or it may consist of evidence of surrounding facts and circumstances independent of information received from the inventor." Reese v. Hurst, 661 F.2d 1222, 1225 (C.C.P.A. 1981). The fact that a witness has some affiliation to the inventor is not a basis upon which to reject the testimony's corroborative ability. See Price v. Symsek, 988 F.2d 1187, 1195-96 (Fed. Cir. 1993)(stating that testimony of corporate secretary of alleged inventor's company could, if believed, corroborate the inventor's testimony, and further holding that "all of the evidence put forth by [inventor], including any of his corroborated testimony, must be considered as a whole.")(emphasis supplied). Logically, those who work in proximity to the inventor will most likely be the ones in the best position to have observed evidence of the invention first-hand. I thus conclude that the testimony of Environ's employees was sufficient to constitute the requisite corroboration, and that the jury instruction on this issue was proper.

C. The Parties' Burdens-of-Proof Instruction

The jury was instructed that Environ's burden of proving that Michael Webb was the inventor of the underground flexible

coaxial containment pipe was by a fair preponderance-of-the-evidence. The jury was further instructed that the burden of proof for Furon to show that its former employee, Steven Skaggs, was the inventor was by clear-and-convincing evidence. Additionally, the jury was instructed that in order to show that Leo LeBlanc and Andrew Youngs were joint inventors, APT's burden of proof was by clear-and-convincing evidence.

APT/EBW argue that Environ, as well as the APT/EBW and Furon, should have had to prove inventorship by clear-and-convincing evidence. Furon also argues that Environ's burden of proof should have been clear-and-convincing evidence, but does so on three distinct grounds: (1) Environ's complaint alleged claims that, under Pennsylvania and Ohio law, require clear-and-convincing evidence, (2) Environ was seeking an equitable remedy that demanded a burden of proof higher than a mere preponderance-of-the-evidence, and (3) Environ was asking for the creation of a constructive trust by requesting that Furon's patent be assigned to Environ, and under GAF Corp. v. Amchem Products, Inc., 514 F. Supp. 943 (E.D. Pa. 1981), this required proof by clear-and-convincing evidence. In response, Environ argues that its burden of proof by a preponderance-of-the-evidence was appropriate, as its claim of inventorship was analogous to an interference proceeding.

Under most circumstances, there is a rebuttable presumption that a patent is valid, see 35 U.S.C. § 282, which requires a party challenging a patent's validity to do so by clear-and-

convincing evidence. See Innovative Scuba Concepts, Inc. v. Feder Industries, Inc., 26 F.3d 1112, 1115 (Fed. Cir. 1994). This presumption arises from the grant of a patent by the PTO. See Peerless Equip. Co. v. W.H. Miner, Inc., 93 F.2d 98 (C.C.A. Ill. 1938).

Here, the PTO erred by allowing three co-pending applications for the same invention to stand, without convening an interference proceeding,¹ and further erred by issuing patents on two of those applications. See 35 U.S.C. § 101; In re Hallman, 655 F.2d 212, 216 (C.C.P.A. 1981)(stating that only one valid patent can issue on the same invention). In light of these events, the well established principles of patent law militated in favor of applying the preponderance-of-the-evidence standard to Environ in establishing inventorship.

The burden of proof of inventorship is reduced to a preponderance-of-the-evidence in an interference proceeding between a patent and a co-pending application. See Bosies v. Benedict, 27 F.3d 539, 541-2 (Fed. Cir. 1994).² This standard

¹Interference proceedings make "a determination of priority, to decide who among multiple patent applicants (or an applicant and a patentee) was the first to invent claimed subject matter." Minnesota Mining and Manufacturing Co. v. Norton, Co., 929 F.2d 670, 674 (Fed. Cir. 1991).

²The burden of proof in an interference proceeding does not rise to clear-and-convincing evidence unless the junior party filed an application after the senior party's application issued as a patent. 37 C.F.R. 1.657(b). In Price v. Symsek, 988 F.2d 1187 (Fed. Cir. 1187), a burden of clear-and-convincing evidence was required to show derivation and priority. In Price, the dispute over inventorship was between an issued patent and an application that was filed after the patent issued. Price at 1190. Thus, the

also applies when the issue in the interference proceeding is derivation. See Davis v. Reddy, 620 F.2d 885 (C.C.P.A. 1980); Mead v. McKirnan, 585 F.2d 504, 507 (C.C.P.A. 1978).

Once two patents have been issued on the applications, however, the appropriate remedy for interference is an action under 35 U.S.C. § 291, which states:

[t]he owner of an interfering patent may have relief against the owner of another by civil action, and the court may adjudge the question of the validity of any of the interfering patents, in whole or in part.

In a case of interfering patents, "[n]either patent owner knows if its patent is valid in light of the other's patent, the presumption of validity provided by 35 U.S.C. § 282 having been eroded by the grant of an 'interfering' patent." Kimberly-Clark Corp. v. Procter & Gamble Dist. Co., 973 F.2d 911, 914 (Fed. Cir. 1992)(emphasis added). Where, as here, the PTO has issued two patents for the same subject matter, the presumption of validity loses force. The fact that the PTO issued patents to both Environ and Furon on the same invention impedes both parties' right to exclude others from making, using, or selling the patented subject matter. See 35 U.S.C. § 271(a). Thus, the basis upon which the clear-and-convincing standard has been applied to claims of invalidity against an issued patent are not present, in the case of interfering patents, as in the case of an

patent and application there at issue were not co-pending. Here, however, the patents and application were co-pending and thus, the burden of clear-and-convincing evidence is not applicable.

interfering patent and application.

The present case is sufficiently analogous to an interference proceeding or a § 291 action to justify Environ's preponderance-of-the-evidence burden of proof. Furon contends that GAF v. Amchem, 514 F. Supp. 943 (E.D. Pa. 1981) is "the most pertinent" to the present case. In GAF, the court stated that "courts have uniformly required that claims of prior inventorship and derivation be established by clear-and-convincing evidence." Id. at 963. This may be true when, as was the case in GAF, a party without a patent or co-pending application seeks to acquire the rights to an existing patent, which benefits from a presumption of validity. However, claims of prior inventorship and derivation may be established by a preponderance-of-the-evidence for interferences between a patent and a co-pending application, or between interfering patents.

The circumstances in this case warranted the use of the burden of proof applicable to an interference proceeding or a § 291 action, despite the fact that the parties did not plead this case as such. Environ's U.S. Patent No. 5,297,896 was co-pending with Furon's U.S. Patent No. 5,343,738 and APT's U.S. Application Serial No. 07/859,034, and the PTO should have held an interference proceeding to determine inventorship at that time. Thus, it was proper to assign Environ the burden of proof to establish inventorship by a preponderance-of-the-evidence in the subsequent trial on this issue.

Furon further argues that because Environ has pled claims

that require proof by clear-and-convincing evidence, the inventorship element of those claims should have also been proved by clear-and-convincing evidence. Yet, contrary to Furon's assertion, as to those claims for which inventorship is an element, the correct burden of proof is by a preponderance-of-the-evidence.³

Furon contends that Environ's claim of unfair competition is couched in terms of a claim of embezzlement or fraud, both of which must be proved by clear-and-convincing evidence. However, the burden of proof for claims under 15 U.S.C. § 1125(a) and state law claims of unfair competition -- the claims upon which Environ is actually proceeding -- is by a preponderance-of-the-evidence. See U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia, 898 F.2d 914, 921 (3d Cir. 1990).

Furon also argues that the remedy Environ is seeking through its claim of unjust enrichment, is an assignment of Furon's patent - which is an equitable remedy that demands a higher burden of proof than a mere preponderance-of-the-evidence.

³ Furon contends that if Environ's breach of fiduciary duty claim must be proven by clear-and-convincing evidence, so should its claim of inventorship. However, the issue of inventorship is not relevant to the breach of fiduciary duty claim. Further, Furon contends that because a fiduciary relationship was asserted as part of Environ's conversion claim, the burden of proof on the conversion claim should be heightened to clear-and-convincing evidence. Yet, the burden of proof applicable to conversion claims is preponderance-of-the-evidence, Chrysler Credit Corp. v. First National Bank, 746 F.2d 200, 203 (3d Cir. 1984), and the fact that the existence of a fiduciary duty might be relevant to the conversion claim does not make it relevant to the trial on the issue of inventorship.

Specifically, Furon claims that this remedy is, in actuality, a request for a constructive trust, for which the burden of proof is clear-and-convincing evidence. In support of this proposition, Furon again cites GAF Corp. v. Amchem Products, Inc., 514 F. Supp. 943 (E.D. Pa. 1981), which held that clear-and-convincing evidence was required to prove inventorship as a prerequisite to the granting of a constructive trust. However, assignment of a patent is an equitable remedy that may be granted without creating a constructive trust. See Richardson v. Suzuki Motor Co., 868 F.2d 1226 (Fed. Cir. 1989); Curtis Manufacturing Co. v. Plasti-Clip Corp., 933 F. Supp. 94, 101-102 (D.N.H. 1995). Moreover, as discussed above, GAF is clearly distinguishable.

Hence, the following order.

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MICHAEL C. WEBB,
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ORDER

AND NOW, this day of April, 1998, Defendants' Motions for
a New Trial are DENIED.

BY THE COURT:

Robert S. Gawthrop, III J.